

**CITY OF MORGAN HILL
JOINT SPECIAL AND REGULAR CITY COUNCIL
AND REGULAR REDEVELOPMENT AGENCY MEETING
MINUTES – MAY 3, 2006**

CALL TO ORDER

Mayor Pro Tempore/Vice-Chair Grzan called the meeting to order at 5:35 p.m.

ROLL CALL ATTENDANCE

Present: Council/Agency Members Carr, Grzan, Sellers, Tate
Late: Mayor/Chair Kennedy arrived at 5:45 p.m.

DECLARATION OF POSTING OF AGENDA

City Clerk/Agency Secretary Torrez certified that the meeting's agenda was duly noticed and posted in accordance with Government Code 54954.2.

City Council Action

INTERVIEWS:

1. INTERVIEWS TO FILL VACANCIES ON THE ARCHITECTURAL REVIEW BOARD, MOBILE HOME RENT COMMISSION AND SENIOR ADVISORY COMMISSION

Mayor/Chair Kennedy entered and took his seat on the dais.

The City Council interviewed the following: Senior Advisory Commission applicants: Betty Ancheta, Susan Fent, Betty Gigliotti, Staten Johnston, Jeannette Riley, Gloria Subocz, and William Quenneville. Architectural & Site Review Board: Linda Hinkle, and Jon Maxey. Rocke Garcia did not interview for this Board. Mobile Home Rent Commission: Charles Dillmann and John Liegl. Robert Graham did not interview based on a prior scheduling conflict.

Action: *The City Council identified their candidates of choice for the Mayor's consideration. Mayor to return at a following meeting with recommended appointments to the Architectural & Site Review Board; Mobile Home Rent Commission; and Senior Advisory Commission.*

RECESS

The City Council took a recess at 6:45 p.m.

RECONVENE

Mayor Kennedy reconvened the meeting at 7:05 p.m.

SILENT INVOCATION

PLEDGE OF ALLEGIANCE

RECOGNITIONS

Assistant to the City Manager Dile indicated that this past spring, the City was engaged in an unusual and extensive outreach program. The City is trying to get residents and community members together to talk about Morgan Hill's future; including visions for service levels and funding for City services. She indicated that 25 Community Conversations were held and that five community facilitators were involved in these sessions; actively helping the City bring individuals to these sessions. She acknowledged Community Conversation Citizen Facilitators Kathy & Brian Sullivan, Chuck Dillmann, Joe Mueller, and Dan Ehrler; extending appreciation and thanks.

Mayor Kennedy presented Certificates of Recognition to Kathy & Brian Sullivan, Chuck Dillmann, Dan Ehrler and Joe Muller in appreciation of their excellent service to the community at large through their work in the Community Conversation.

PROCLAMATIONS

Mayor Kennedy presented Director of Public Works Ashcraft a proclamation, proclaiming May 21 thru May 27, 2006 as *National Public Works Week*.

Mayor Kennedy presented a proclamation to Karl McCann, Bicycle & Trails Advisory Committee Member, proclaiming May 14 thru May 20 as *Bike to Work Week*.

Mr. McCann indicated that Thursday, May 18 is *Bike to Work Day* and recommended that residents ride their bikes to work that day. He said that there will be an energizer station at the Caltrain station from 6-9:30 a.m.

PRESENTATIONS

Mayor Kennedy presented Mark Hubble, Bicycle and Trails Advisory Committee Member with a *Morgan Hill Cycling and Trails Awareness Award* in recognition of contributions made to the City of Morgan Hill's cycling and trails programs.

Program Administrator Eulo thanked the Earth Day Judges for their assistance in judging the various contest categories: Phil Couchee, Marilyn Dubil, Rosemary Kamei, Ed Tewes, Council Member Mark Grzan and Mayor Kennedy.

Program Administrator Eulo announced the 8th annual Environmental Poster Contest winners: K-3rd grade - Ramina Gupta; 4th-6th grade - Patrick McLaughlin; and 7th-12th grade - Jina Parks.

Program Administrator Eulo announced the Art and Science Fair Winners as follows: K-3rd grade - Avery Sampson; 4th-8th grade - Jed Pettitt; and 9th-12th grade – Mr. Johnston's Science Class from Live Oak High School: Angelina Rodriguez; Ike Albin, Melissa Ramos, and Brianna Pena (also Best Presentation winners).

Program Administrator Eulo announced the winners in the following categories: *Best Idea*: Keely Griffin and Lindsey van Keulen (students at Sobrato High School); *Best Art Project*: Ms. Southland's sixth grade class; and *Best in Show*: Ms. Levin's Carden Academy eighth grade physics class.

Chamber of Commerce 2006 Environmental Awards

Ted Fox, Chairman of the Board and Dan Erhler, Executive Director, presented the Chamber of Commerce's Environmental Awards. Also, in attendance was Alex Kennett, Chairman of the Environmental Activities Committee.

Sustainable Quality Award Winners: Joe Bella, Hospira, Inc. and Adriadne Scott, Specialized Bicycles.

Excellence Awards: St. Catherine's Parish & School (stewardship to the natural environment and social responsibility); Connie Iobst, Anritsu Company (stewardship to the natural environment); Kim Jackson, Comcast Morgan Hill Call Center (social responsibility); Adelita King, Heritage Bank of Commerce (social responsibility); and Leslie Miles, Weston-Miles Architects, Inc. (stewardship to the natural environment).

Craig O'Donnell, Field Representative for Assemblyman John Laird's office, presented certificates to all Environmental Award recipients.

Julie Osborn, South Valley Disposal and Recycling, presented the 2005 *Recyclers of the Year* awards as follows: Residential: The Morris Family; Business: Judy Dunfield, Post Master, Morgan Hill Post Office; and Unincorporated Area Business: Tracy Devell, San Martin Post Office.

CITY COUNCIL REPORT

Council Member Grzan reported on the Environmental & Utilities Committee. He stated that as a member of this Committee, he had the pleasure of serving as a juror for the Art & Science Fair contest this past week. He stated that recycling is important for the community and instill the idea of recycling in our youth. He indicated that Santa Clara Valley will be implementing a new policy/guideline(s) that will protect development along creeks and streams. He said the new policy/guidelines will be coming before the Council sometime in the future. The proposal would allow the City of Morgan Hill to issue permits for development along creeks regulated by the Santa Clara Valley Water District. This would allow the City of Morgan Hill to become a one step permit in this process if the City adheres to some of the policies or negotiates policies with the Water District. The Committee received a report from PG&E regarding community aggregation. He said the City is looking at a mechanism to become a supplier of electricity for the community. The Committee foresees some substantial savings to the community if the City joins this effort. The Committee also received information that there are billions of dollars available for the City and residents who look at energy saving projects. If residents have an idea that would reduce electricity, in some fashion, PG&E will partner with individuals; resulting in energy savings. He stated that the Committee had an interesting issue come before it regarding water pressure. He said that some areas in the City have high water pressure. An incident occurred earlier this year where a water pipe broke that caused considerable water main damage to a Morgan Hill resident's water pipe. He commended City staff for an outstanding job in responding to the resident's need. In reviewing this

situation, the City identified water pressure issues throughout the community. He stated the Committee will be coming forth with a new policy of disclosure; letting Morgan Hill residents know that the City has methods in place to address high water pressure. He indicated that the Committee will be returning to the Council with a recommendation on partnering with small portions in the community with high water pressure; sharing in the resolution to reduce the number of residents at risk.

Mayor Pro Tempore Grzan reported on the Financial Policy Committee; indicating that this Committee is working diligently toward resolving the City's budget deficit. Last Saturday, the Council had the opportunity to host a capstone event at the Community Center; concluding a phase of the Community Conversation. He said the Council looked at different ways to address this budget structural deficit. He was pleased with staff's responses as well as with the number of individuals in attendance. He was also pleased with the process that took place over the course of the past couple of months where several hundred community members looked at alternatives to resolving the structural budget deficit. He felt the Council came to consensus on a couple of items. He said that he looks forward to bringing all issues together as the Council addresses this problem in the near future.

CITY MANAGER REPORT

City Manager Tewes reported that Bill Newkirk, a valuable employee of the Redevelopment Agency, retired last week. He indicated that Mr. Newkirk was employed by the City for approximately 8-years, and was an unsung employee who had a tremendous impact on the City. He stated that Mr. Newkirk was responsible for most of the affordable housing projects that have been undertaken in the past eight years. He said that hundreds of individuals have Mr. Newkirk to thank for affordable housing opportunities at Murphy Ranch, Jasmine Square, Via Ciolino and the soon to be completed Royal Court project. He indicated that Mr. Newkirk was an excellent employee and a good grant writer that resulted in the City receiving several grants. He stated that Mr. Newkirk played a major role in the City receiving a multi million dollar grant for the reconstruction of Depot Street in downtown. He indicated that Mr. Newkirk was the 2002 Employee of the Year. He wished Mr. Newkirk the best in his retirement.

Mayor Kennedy thanked Mr. Newkirk for his many years of service and contributions to the City of Morgan Hill.

CITY ATTORNEY REPORT

Acting City Attorney Siegel stated that he did not have a report to present this evening.

OTHER REPORTS

PUBLIC COMMENT

Mayor/Chairman Kennedy opened the floor to public comments for items not appearing on this evening's agenda. No comments were offered.

City Council Action

CONSENT CALENDAR:

Council Member Tate requested that item 3 be removed from the Consent Calendar.

Action: *On a motion by Council Member Carr and seconded by Council Member Tate, the City Council unanimously (5-0) **Approved** Consent Calendar Items 2, 4-7 as follows:*

2. **COUNCIL RESOLUTION SUPPORTING GRANT FUNDING FOR UPDATING THE BIKEWAYS MASTER PLAN**

Action: *1) **Approved** Resolution No. 6001, Supporting Transportation Development Act (TDA) Article 3 Grant Funding for \$28,000 to Update the 2001 Bikeways Master Plan; and 2) **Appropriated** \$6,000 from the City's Current Year Unappropriated Parks Maintenance Fund Balance (302) to Cover CIP Administration Expenses.*

4. **AMENDMENT TO CONTRACT PROVIDING PLAN CHECKING SERVICES ON AN AS-NEEDED BASIS**

Action: *1) **Approved** Amendment to the Contract with Harris & Associates to Increase the Contract Amount by \$40,000; and 2) **Authorized** the City Manager to Execute the Contract Amendment; Subject to Review and Approval by the City Attorney.*

5. **LEGISLATIVE RECOMMENDATIONS FROM UTILITIES AND ENVIRONMENT COMMITTEE**

Action: ***Directed** Staff to a Draft Letter of Support for the Mayor's Signature on AB 32, AB 2271, and AB 3001.*

6. **SUPPORT OF COUNTY PARKS CHARTER MEASURE**

Action: ***Adopted** Resolution No. 6002, Supporting the County Parks Charter Amendment Measure.*

7. **BI-ANNUAL VACANCY RATE SURVEY**

Action: ***Established** the Bi-Annual Vacancy Rate for April 2006 as Recommended by the Planning Commission.*

3. **DEVELOPMENT OF A BMX PARK ON THE CENTENNIAL RECREATION CENTER SITE**

Council Member Tate noted the staff report indicated that Council referred this item to the Youth Advisory Committee on Monday. He inquired as to this Committee's comments as they relate to this item.

Director of Public Works Ashcraft informed the Council that the Youth Advisory Committee was very supportive of the BMX Park project, and would like to help guide the design; including assistance with raising donations to include extra components.

Action: *On a motion by Council Member Tate and seconded by Council Member Carr, the City Council unanimously (5-0): 1) **Received** the Staff Report and Parks and Recreation*

*Commission Recommendation; and 2) **Approved** the Development of a BMX Park to be Located at the Northwest Corner of the Centennial Recreation Center Site.*

Redevelopment Agency Action

CONSENT CALENDAR:

Vice-chairman Grzan requested that item 8 be removed from the Consent Calendar.

Action: *On a motion by Agency Member Carr and seconded by Agency Member Tate, the Agency Board unanimously (5-0) **Approved** Consent Calendar Item 9 as follows:*

9. COMMUNICATIONS FIRM – JDS GROUP

Action: ***Authorized** the Executive Director to Negotiate and Execute a Contract with the JDS Group in an Amount not to exceed \$55,000; Subject to Review and Approval by the Agency Counsel.*

8. CHAMBER OF COMMERCE ECONOMIC DEVELOPMENT MARKETING PLAN FOR FISCAL YEAR 2006-2007

Vice-chairman Grzan requested a staff report and overview of the various plans being presented; including staff conclusions.

Director of Business Assistance & Housing Services Toy indicated that this item is a recommendation to adopt the Community & Economic Development Committee's recommendation to authorize the Executive Director to budget \$125,000 in Fiscal Year 2006-07 in the Business Assistance & Housing Services budget. This funding would fund the Chamber of Commerce's Economic Development Partnership. He said that over the past 10 years, the City has had an agreement with the Morgan Hill Chamber of Commerce to provide supplemental economic development services. He stated that these services include implementing a business retention and attraction program; implementing a marketing and advertising strategy campaign; maintaining collateral materials; developing a website; working with their tourism advisory committee; and evaluating regional strategies for regional economic development and tourism efforts in South County. He indicated that the Chamber of Commerce has developed three proposals for Fiscal Year 2006-07. Two of the proposals envision the Chamber hiring their own Economic Development professional to aggressively market the community. He stated that these priorities are different from what is in the City's economic development strategy at this time. Given the current economic times, the Chamber of Commerce is recommending that they are allowed to pursue their proposal C. With proposal C, the Chamber would be acting as the economic professional, to a lesser extent, with the Chamber of Commerce staff providing this activity. Under proposal C, it is being recommended that \$36,000 of the \$125,000 be allocated toward the regional tourism efforts. This money would go along with the Gilroy's Visitor's Bureau in collaboration of their efforts to advertise and market to make the monies go a little further. He informed the Council that staff has reviewed this item with the Community & Economic Development Committee and that the Committee believes that proposal C is a good approach.

Member Sellers said that the Chamber provided the Committee with a variety of proposals and that the Committee weighed the various elements within the economic development plan. Also, to determine which alternative would be the most cost affective. After reviewing the proposals, the Committee determined that the third option provided the most flexibility and gives the Chamber of Commerce the opportunity to continue its work in an efficient way, while reducing costs. Therefore, it is the Committee's belief that proposal C made the most sense of the three alternatives presented.

Vice-chairman Grzan inquired whether there was any potential for analyzing the economic return from this investment.

Agency Member Carr said that when the Committee met with the Chamber of Commerce staff/Board, an economic return on investment was discussed. He said that it would be the Committee's expectation for City staff to work with the Chamber of Commerce staff on a matrix; identifying how this evaluation would be conducted. He noted the Council has struggled with how you truly measure the success of the partnership, and what would be a fair matrix that could show the City's return on investment. He said that it has been difficult to find an instrument to measure return on investment. As the City focuses on this effort, there may be a way to refine the measurement better.

Action: *On a motion by Agency Member Tate and seconded by Agency Member Sellers, the Agency Board, unanimously (5-0) **Adopted** the Community and Economic Development Committee's Recommendation to Authorize the Executive Director to allocate \$125,000 in the Business Assistance and Housing Services Fiscal Year 2006-2007 Budget for the Morgan Hill Chamber of Commerce's Economic Development Partnership Program.*

City Council and Redevelopment Agency Action

CONSENT CALENDAR:

Mayor/Chairman Kennedy removed item 10 from the Consent Calendar.

10. JOINT SPECIAL AND REGULAR CITY COUNCIL AND REGULAR REDEVELOPMENT AGENCY MEETING MINUTES FOR APRIL 19, 2006

Mayor/Chairman Kennedy offered a correction to the minutes, page 26, second paragraph; replace "blue herring" with "blue heron."

Action: *On a motion Mayor/Chairman Kennedy and seconded by Council/Agency Member Sellers, the City Council/Agency Board unanimously (5-0) **Approved** the minutes as amended.*

City Council Action

PUBLIC HEARINGS:

11. **GENERAL PLAN AMENDMENT, GPA-06-01/ REZONING APPLICATION, ZA-06-02:
LAUREL-CITY OF MORGAN HILL – Resolution No. 6003 and Ordinance No. 1779, New
Series**

Senior Planner Eric Marlatt presented the staff report to change the general plan and zoning designation from multi family residential low to commercial for a vacant 2.5 acre parcel located north of the intersection of Laurel and Walnut Grove Drive intersection. He indicated that the application was filed to facilitate the construction of a new Trader Joe's on this site. He stated that an expanded initial study was prepared for the general plan and rezoning applications, and for the project which includes a 13,500 square foot store. He indicated that the initial study concludes that all impacts can be mitigated, therefore, a mitigated negative declaration is the appropriate action under CEQA this evening. He informed the Council that the Planning Commission considered these applications at their April 25 meeting and voted 5-1 to recommend Council approval of the application. He clarified that the no vote was not a vote against, but rather the language in the motion that would have required the negative declaration return to the Planning Commission in the event comments were received between their hearing date and the end of the comment period, Monday May 1. He informed the Council that staff did not receive any comments on the negative declaration. Therefore, there is no change to the overall processing of this application. He stated that the Planning Commission minutes added mitigations to the negative declaration as follows: 1) the deliveries are to occur between 5 a.m. and 9 p.m.; 2) additional noise attenuation in the loading dock area, if needed; 3) ARB to look closely at providing additional landscaping in the northern buffer area; and 4) consider an increase in the height of the required sound wall from 6-8 feet to help mitigate impacts that might be associated with light and noise. He informed the Council that it is Trader Joe's goal to be completed by Thanksgiving.

Mayor Kennedy opened the public hearing.

Frank DeRose, one of the managers for the DeRose Development LLF that own APN 726-01-008, immediately east of the parcel on which Trader Joes is to be built, stated that he is in support of the Trader Joe's project. As the rear of Trader Joe's will face their property, he wants to make sure that the loading dock, trash containers, transformers, and any other rear service facilities are adequately screened, and that the space in the rear of Trader Joe's is kept clean from trash and clutter. He has reviewed the site plan and the landscape plans for this project. He inquired as to the precise specifications of the height and capacity of the screen wall. Once provided, he may have additional feedback. It was his belief that they can agree to some combination of a wall and a row of conifers that will provide adequate screening. He informed the Council that sometime in the future, the De Rose Development LLC may want to develop its parcel. They may design a driveway in order to have direct access from Laurel Lane. He indicated that a driveway would be proposed adjacent to the driveway that provides access to Trader Joe's loading dock. He wants to make sure the City has no objections to, or has ordinances against two driveways being close together. He requested a positive statement regarding this matter. He said that on the assumption that adequate screening of the loading dock will be provided, the service areas are to be adequately maintained, and the City will allow the two driveways next to each other, would endorse the Trader Joe's project and encouraged Council approval of the project.

Mary Anne Kendall stated her support of Trader Joe's. She said that it was her understanding from one of the prior meetings, that Trader Joe's was going to consider evening deliveries. She requested clarification as to the loading time restrictions.

Robert Day, contractor/project manager for Trader Joe's, informed the Council that also in attendance was Gary Nye, Manager for Trader Joe's. He stated that a subterranean loading dock is being proposed that will be four feet below the ground level of the store. The sound wall is proposed to be 10-feet at the loading dock level with a cover over it. This would result in being down 4 feet at the truck loading area. He did not believe there would be any noise impacts to the property located to the right of the parcel, or to individuals in the residential area. He said that it is proposed to install an 8-foot concrete sound wall that is consistent with the siding of the building. He will prepare a line of sight drawing; indicating that the truck lights will be at approximately 3-feet. Therefore, lights will be buffered by the trees to be installed. He indicated that it is proposed to have Trader Joe's built by November 15, 2006

Council Member Sellers noted the Planning Commission indicated a desire to have a 5 a.m. – 9 p.m. loading. He inquired whether there were any issues with this restriction.

Mr. Day clarified that trucks would come no earlier than 5 a.m. and would come in at 9 p.m.; being unladed by 10 p.m.

Mr. DeRose requested a statement from the City that in the future, should the DeRose Development decide to develop the parcel, they be allowed to install a driveway with the same configuration as Laurel Lane. He inquired whether there were any City ordinances that would prevent the proposed driveway from being constructed close to the Trader Joe's driveway.

No further comments being offered, the public hearing was closed.

Senior Planner Marlatt said that there are no ordinances in place that prohibit driveways being in proximity to each other. However, staff would request that a traffic engineer review the driveway.

City Manager Tewes indicated that the mitigated negative declaration includes conditions relating to potential noise and includes the requirement that deliveries not occur any earlier than 5 a.m. or later than 9 p.m.

Senior Planner Marlatt informed the Council that as part of the initial study process, the City had an acoustical consultant look at noise from the loading activities as well as from trucks exiting the property. He stated that there were no concerns expressed by the acoustical engineer. It was their opinion that the noise from these activities would not cause the residents to experience noise beyond general plan thresholds. He clarified that the Planning Commission added assurance mitigation measures and that they went above and beyond what the acoustical consultant requested.

Mayor Kennedy said that it is not known what will be developed on the De Rose property. However, it would be appropriate to connect parking lots and shared driveways. He inquired whether the potential exists to connect parking lots and to share a driveway.

Senior Planner Merlot said that there is a potential to share driveways.

Mr. DeRose stated that he has no objections to engaging in the discussion of a shared parking lot/driveway

Action: *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Adopted** the Mitigated Negative Declaration.*

Action: *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Adopted** Resolution No. 6003, Approving the General Plan Amendment.*

Action: *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Waived** the Reading in Full of Ordinance No. 1779, New Series.*

Action: *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council **Introduced** Ordinance No. 1779, New Series, by Title Only, as follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL, AMENDING THE ZONING DESIGNATION FROM R-2 3,500 (MEDIUM DENSITY RESIDENTIAL) TO CG (GENERAL COMMERCIAL) ON A 2.66-ACRE PARCEL (APN 726-43-006) ADJACENT TO AND NORTHERLY OF THE LAUREL ROAD/WALNUT GROVE DRIVE INTERSECTION (ZONING AMENDMENT APPLICATION NO. ZA-06-02: LAUREL – CITY OF MORGAN HILL), by the following roll call vote: AYES: Carr, Grzan, Kennedy, Sellers, Tate; NOES: None; ABSTAIN: None; ABSENT: None.***

Mayor Kennedy thanked the public for their support of Trader Joe's; specifically, in the efforts with the post cards and all of the activities of the Chamber of Commerce to encourage Trader Joe's to come to Morgan Hill. He stated that it was clear that Trader Joe's was the number 1 project that Morgan Hill residents wanted and that it was his hope the City would do everything it can to fulfill the goal of having the store up and running by Thanksgiving.

City Council Action

OTHER BUSINESS:

12. CENTENNIAL RECREATION CENTER YMCA OPERATING AGREEMENT

City Manager Tewes introduced newly hired Director of Recreation & Community Services Steve Rymer who would be presenting the report on a request the Council authorize staff to execute an agreement with the YMCA for the health & fitness and senior programs at the new Centennial Recreation Center (CRC). He thanked Rod Cooper, the outgoing manager of Recreation & Community Services, for his help on this project.

Director of Recreation and Community Services Rymer informed the Council that in attendance this evening was Pamela Van Wiegand. He stated that he and Ms. Van Wiegand would jointly be presenting information, via a power point presentation, on the proposed contract to jointly operate the CRC by the City and the YMCA of Santa Clara Valley. He indicated the City and YMCA jointly moved forward

with a market study to discuss some of the City's and community wishes for what the center could bring. Reviewed were the financial assumptions that the contract was based upon. He indicated that the financial assumptions looked at Gilroy and San Martin residents as a market the City would be looking toward attracting to ensure the success of the center.

Mr. Rymer addressed the six objectives established: 1) having a 5-year term, including the review of evaluation criteria that would be established to ensure the center is moving in the right direction and is successful every year; 2) City authority; 3) review of how risk sharing would occur; 4) a 3-year cost recovery; 5) YMCA scholarship support; and 6) senior programs.

Pam Van Wiegand informed the Council that Dave Thornton, YMCA CEO was at a board meeting out of town this evening and that he expresses his regret that he could not be in attendance this evening. She addressed the following: 1) how they approached the partnership contract; 2) how the Council's objectives would be realized; 3) membership philosophy and pricing; 4) how the pieces fit and benefit the residents; and 5) what are the next steps. She stated that the YMCA is approaching the partnership from a position of stewardship in order to fulfill the City's trust in trying to reach the City's goal. It is proposed by the YMCA and City staff that the CRC will be cost effective and that Morgan Hill residents will have a lot to access. She clarified that this will be one team, even though paychecks are coming from different places. She said that this team will be under the leadership of the CRC supervisor. She stated that there is a balance in the YMCA model and the traditional recreational programming in various parts of the building. They are aware of this balance as they moved forward in the preparation of the contract.

Mr. Rymer said the contract includes an initial 5-year agreement. He said that two groups will be served outside the membership model: seniors and youth/teens (non fee based use). He indicated that safety and risk management will be shared; and that the center will have common policies in place. It has been agreed that neither party would exercise a termination clause in the initial 3-years as this time period is critical to the operation. It is in the third year where you start looking at cost recovery goals. The City and YMCA is aiming for a true partnership for the first 3-years, continuing the partnership many years thereafter. He clarified that both parties will be responsible for the CRC and its operation. However, it will be the City who ultimately hires the CRC supervisor and will have the responsibility of leading the team put into place. The CRC supervisor will work jointly with the City and YMCA to make sure that what is taking place is consistent, there is cooperation, and that there is good communication. Should an issue arise, he and Ms. Van Wiegand will be responsible for making sure they talk through the issues and are proactive in the approaches to managing the facility. They will make sure that sound decisions are made to resolve issues that may arise. Should a problem arise, the City will have the authority, after consulting with the president of the YMCA, to make final operational decisions. He said that there are safe guards for both the YMCA for the City, should something arise, with both agencies having the right to take the appropriate actions, as deemed necessary.

Ms. Van Wiegand noted the City will soon be hiring a supervisor for this facility and that the YMCA is starting to look for an associate supervisor who will be in charge of all fitness and programming. A structure has been built into the contract where each organization has input in the hiring of key staff. She indicated that both organizations worked together to build the assumptions and the budget being proposed. Once set, the YMCA will be 100% accountable for delivering revenue and living within the expense budget. She stated that the YMCA will be generating fees and memberships in a wide variety of

ways. The YMCA has started to gather information by surveying by individuals in the community who may be interested in usage/membership information about the facility. She informed the Council that approximately 15% of the individuals who have expressed an interest in the CRC who are not Morgan Hill residents, and that 80% who responded to the survey are from Morgan Hill. She noted that this percentage break down is how the budget was built. She stated that the YMCA is interested in being aggressive about marketing the facility so that individuals are ready to use the facility once it opens.

Ms. Van Wiegand said that as they planned the risk sharing model, the YMCA tried to reduce risks to the City in other ways (e.g., try to match pricing philosophies, ensure the CRC is not competing with the Community and Cultural Center, and programming will not undermine other facilities).

Mr. Rymer addressed the reconciliation of the partnership revenues and expenses. Should the budget be met, everything would remain the same. Should there be an operating gain in place, 60% of the gain would go to the City and 40% would go to the YMCA. However, should there be an operating loss in the membership side, 60% of the loss would be the responsibility of the City and 40% of the responsibility would go to the YMCA. He stated that the partnership portion of the budget could realize an operating gain while the overall center does not. He clarified that the aquatics portion is 100% the City's responsibility and that all revenue goes to the City. It is the ultimate goal that the City would see an operating gain every year from the aquatics center. He addressed the YMCA's health and fitness area. He said that this is where the programming of the 60%/40% equation comes into place. He said that if all program items go well and there is cost containment, by the end of three years, full cost recovery would be seen. He informed the Council that the long term success will be based on the ability to attract and retain members. Staff realizes that this is an ambitious goal, noting that it has been discussed in the past that very few recreational centers actually attain full cost recover. However, it is staff's belief that with management, creative pricing, programming and leadership; full cost recovery will be a possibility within the 3 year period (end of Fiscal Year-2008-09). He addressed the initial membership processing fee that would allow access to other YMCA facilities. If individuals want to utilize the other 5 YMCA facilities, 50% of this fee would go to the YMCA and the remaining 50% would go to the partnership. If individuals do not want to utilize other YMCA facilities, 100% of the processing fee would go toward the partnership.

Van Wiegand indicated that a membership program will be implemented and that day passes will be implemented. The day pass will give individuals access to the fitness facility, lap swim, use of the gymnasium or the ability to take a class. The budget was built aggressively and conservatively. It is assumed that when the facility is opened, there will be 600 members on day one. It is the hope that by the end of June, there will be over 2,100 memberships and 10,000 day passes. She informed the Council that the seniors will be given the special hourly rate that allows use from 10 a.m. to 3 p.m. If these hours do not work, seniors can purchase an adult pass. She indicated that if a senior could not afford this pass, they can obtain a scholarship for part of the pass.

Mr. Rymer informed the Council that a policy is proposed that would authorize the City Manager to adjust pricing, as needed, in order to allow flexibility in operating the center. He addressed the operating budget with the goal of achieving full cost recovery by Fiscal Year 2008-09.

Ms. Van Wiegand said that scholarships are built into the plan. She stated that the YMCA will retain the nutrition contract from the County. She noted that the nutrition contract does not pay for the cost of

delivering the nutrition program. Therefore, the Mt. Madonna YMCA is making a commitment to raise the funds necessary to ensure the nutrition program is delivered. Should the County make a dramatic change on how they fund the nutrition program in the future; the YMCA will need to discuss this with the City. The YMCA is making a commitment to offer other additional YMCA programs and be willing to scholarship young people in the teen center. The YMCA will continue to operate the entire senior program, and the City would continue to provide YCMCA with a stipend in order to continue the core programs. She said that on or near November 1, the entire senior program will move from the Friendly Inn into this facility and offer 100% of what is currently being offered. Over the course of the year, the senior program will expand into a wider range of programming as identified by the users of the facility.

Council Member Sellers indicated that at the Senior Advisory Commission interviews held this evening, two items were raised. A suggestion was made that the Commission hold their meetings at the CRC. He inquired whether the YMCA thought about the use of the center for Commission meetings. It was mentioned that there are significantly active seniors who might be inclined to volunteer and participate; leading to a more rapid program expansion.

Ms. Van Wiegand stated that the partnership is conscientious about allowing the Senior Advisory Commission to meet at the Center and to recognize that seniors need to get involved in programming. She addressed the overall benefits, programming, and the vision of what will take place in the CRC.

Mr. Rymer addressed the next steps. He said that what is envisioned, in the health and wellness side, is looking at the framework of policies and procedures that the YMCA already has in place and to make sure they can be applied to the things the City can do as a municipality. These policies will be brought before the Parks & Recreation Commission and the Council. Equipment and signs will need to be purchased and put into place. He stated that a subgroup is working on a marketing plan in order to make the center successful as it moves forward. Staff will need to be hired, including key lead positions. He said that there are three important groups that will help guide some of the programming at the CRC: Parks & Recreation Commission, Senior Advisory Commission, and the Youth Advisory Committee. Another task that needs to take place is planning for a November 2006 grand opening event.

Mr. Rymer acknowledged the individuals who have been involved in the CRC from the YMCA and the City. He thanked Rod Cooper and Pam Van Wiegand who worked on this partnership and the contract for the past 8 months.

Council Member Tate felt that a thorough presentation has been presented and that he was pleased that it was further along than where the partnership would be at this time. He felt that a great structure has been put forth on the CRC. He stated his appreciation for the great job put forth by the entire team.

In response to Mayor Pro Tempore Grzan's question, Mr. Rymer stated that the term "health fitness" would include all programs, including the youth and adult team sports.

City Manager Tewes said that the gymnasium was an area the Council felt important the City maintain responsibility for.

Ms. Van Wiegand clarified that the agreement pertains to the health and fitness portion of the CRC; including the senior programming. She said that the partnership tried to avoid competing against other

programming. She noted the YMCA already has a good-sized sports program. She clarified that the YMCA would be running its own youth sports program and would be renting the gymnasium. The City will also be running its youth sports activities.

Mayor Pro Tempore Grzan said that he sees duplication in efforts and competing interests when both the YMCA and the City would be offering youth sports activities.

Mr. Rymer said that what is being envisioned is that quarterly meetings will be held between the programmers in order to reduce duplicating programs. Staff acknowledges there are some programs the YMCA has run for a number of years that they may want to continue. He stated that the City would not duplicate these programs or run a competing league. The City would look at running programs in areas that staff has expertise. He clarified that both entities would meet as a team and review the types of programs to be offered. He said that it has not been decided who will provide the various programs to be offered.

Council Member Carr noted that this partnership is about the operations of the facilities and not athletic leagues.

Council Member Sellers did not believe it made sense to dismantle the YMCA's successful youth league programs and create it into a City model.

City Manager Tewes noted the YMCA offers a youth basketball program at a particular season of the year, and that the City would not be competing with this. If it turns out that there is a need for a different kind of youth basketball program that meets a different need, or a different time of the year, both groups would work together to figure out the best way to implement the program. He noted that the YMCA and the City are at the early stages of developing programs.

Former Interim Recreation and Community Services Manager Cooper said that overall, the driver for what the YMCA will be receiving revenue, for health & fitness programming. What takes place in the gymnasium is not included with the YMCA health and fitness. He said that the partnership will need to coordinate what programs will be provided in the gymnasium separate from the health and fitness programming. He noted the YMCA will be paying for the use of the gymnasium. Therefore, the City will be receiving revenue for the gymnasium's use. He stated that it has not been determined who will be offering the various programs. It is the intent of the partnership that there are no duplications of major programs as established by the YMCA, but that the City will find program niches it can provide.

Mayor Kennedy said that it is true that a lot of decisions have not been made, and that there are a lot of programming items that need to be worked out. He noted that what is being discussed would be the framework for the agreement.

Council Member Carr noted that this is a contract to talk about the operations of the facility that is being built. He felt the contract will provide the foundation for the partnership that will allow both groups to work from this partnership model in order to determine the needs of the community, and how these needs are to be met. If an athletic league needed, discussions will need to take place as to who would be offering the league. He said that the contract does not identify who will provide the various programming activities.

Mayor Pro Tempore Grzan stated that he has concerns about supporting a contract if it is not known who will be providing the various programming activities. He felt it would be important to have an understanding of what types of programs are to be offered and by whom. He indicated that adult and teen sports happen to be the most lucrative areas, in terms of cost recovery. He expressed concern the City may be losing a potential revenue source by the type of programming it offers or does not offer.

Council Member Carr indicated that this is not a contract to merge the City's recreation department with the YMCA; it is about the operation of a center.

City Manager Tewes agreed that the areas of greatest opportunities for revenue generation for the City are in organized youth and adult sports. He said that this contract provides that these decisions will be made by the City, not by the YMCA. He said that this contract does not cede a responsibility or authority for revenue raising opportunities that come from organized sports activities in the gymnasium. The contract makes sure that these revenues stay with the City.

Mayor Pro Tempore Grzan said he hears it being stated that this is a partnership, and questioned whether these revenues would be shared with the YMCA.

Council Member Sellers felt the contract was a win win situation as the City would determine the programs. At this point, the City has an operator who knows what they are doing, and have been doing a great job in operating these programs for years. He felt the City could receive revenue by renting facilities to the YMCA. He said there is a fine line in the discussions this evening between determining the details of the contract and getting into the programming details. He felt it was beyond the Council's purview to get into programming details. He recommended the Council stick with the details of the contract.

Mayor Pro Tempore Grzan said that he would like to have as much information and comfort as possible, and to remove as much of the ambiguity as possible before taking a vote. He noted that this is a long term agreement for a community facility.

Mr. Rymer said that from an operational standpoint, the City Manager would retain the authority to make decisions when there is a disagreement. He stated that it would be a goal that the partnership would be working as a team. It would be up to management to determine whether there are enough resources to undertake certain programming, or whether it makes sense to partner in a contract with others to run various programs.

Mayor Kennedy inquired whether the pricing structure would be included in the contract.

Mr. Rymer clarified that the pricing structure would be included in the Center's operating plan. He said that the fees were taken from the market study prepared for the center.

Mayor Pro Tempore Grzan inquired whether the YMCA would pay toward any of the utility costs for heating, air conditioning, electrical, etc.

Mr. Rymer responded that the YMCA would not pay toward utility costs as it is a City responsibility under City control.

Ms. Van Wiegand clarified that there is an assumption that the YMCA will produce a surplus and that this surplus would pay for utilities, repair and within the replacement fund, a supervisor, and teen director. She said that there will be memberships and program revenue. She stated that there is a part-time person that will be involved in city sports included in the budget. She noted the YMCA does not currently offer adult sports, but does provide youth sports. She said that the YMCA may hire a staff person to oversee youth sports, but not within this contract. She indicated that memberships will generate over \$2 million in revenue, over time. The sports activities will bring in a small amount compared to the membership revenues. She clarified that the YMCA has no plans to offer adult sports leagues. She stated that the YMCA currently has a strong youth sports program, and that they would like to continue to offer these programs; adding a few items. She said the City may add a variety of youth sports. She clarified that the YMCA will be generating 100% of the revenues that will pay most of the utility bills. In return, the City will pay the YMCA the cost of delivering their programs.

Mayor Pro Tempore Grzan noted that it has been indicated that the CRC is projected to operate at a loss the first three years of operation. If there is a \$300,000 budget deficit projected in the first year, will the YMCA share in this deficit?

City Manager Tewes responded that the YMCA would not be responsible for the deficit, but would be responsible for meeting the budget target identified. It will be up to the Council, the City Manager and the team putting the center together to come up with a total budget for the CRC that is acceptable, and represents the level of service the Council expects toward cost recovery in the third year. He clarified that the YMCA will be responsible for meeting the bottom line of the revenue projection.

Council Member Tate said that when the Council took a vote to move forward with the indoor recreation center, he voted against the motion because he did not believe it to be the right thing to do. However, the Council voted to proceed with the construction of the indoor recreation center. From that time forward, he has made it his responsibility to make sure decisions made for the CRC are made in the most responsible and fiscally prudent manner. He was convinced that the YMCA partnership approach to running the center is the best way for the City to proceed and be fiscally sound; being able to break even at the end of the third year. He worked on the partnership contract as a member of the Public Safety & Community Services Committee, and felt the contract went further than where he thought the City-YMCA would be in terms of including specifics in the contract. He noted the contract does not include programming specifics, or the specific operational details. However, the contract is a framework for the partnership. Therefore, he supports moving forward with approving the contract this evening.

Mayor Pro Tempore Grzan noted that it was indicated that there would be a draw from Morgan Hill, San Martin and Gilroy. He inquired whether there is an anticipating the City would draw further than these areas, drawing from San Jose and other areas.

Mr. Rymer indicated that the market study stated the draw would be from Morgan Hill, San Martin and Gilroy residents. The partnership is assuming there may be some South San Jose residents that will utilize the facility. He clarified that the partnership has not laid out the exact market area, but that these are the three areas to be targeted. He said the City needs to be sensitive to the fact that the YMCA is

marketing their other facilities, and that this facility will be marketed as part of their overall marketing strategy for YMCA memberships. Indirectly, the facility will be exposed to individuals throughout the Santa Clara Valley area.

Ms. Van Wiegand said that typically, individuals will not drive more than 15 minutes to patronize a recreational work out facility. She stated that it does not make sense to market the facility beyond the 15 minute drive time. However, it makes sense to market to residents of Gilroy as they may be driving by Morgan Hill. She clarified that there is no intent to market anyone beyond the 15 minute drive.

Mayor Pro Tempore Grzan noted that the initial marketing study prepared for the center indicated the City would need to draw from a 25-mile radius in order to be able to make the facility a success. According to what is being stated this evening, it is proposed to market to Morgan Hill, San Martin and Gilroy residents.

Council Member Carr noted the information presented this evening refers to a market study previously funded by the City. He stated that the market study looked at Morgan Hill, San Martin and Gilroy.

Mayor Pro Tempore Grzan expressed concern the City of Gilroy will fund and build its own recreational facility(ies). If the City is to rely on a significant portion of the Gilroy population utilizing the City's facility, he suspects that Gilroy residents will participate in their own city-programs. In the long term projection, once the City of Gilroy builds their own indoor recreation center and gymnasiums in partnership with their schools, he sees a potential of a marketing impact to the City's facility; significantly impacting the revenue projections. He inquired whether there were any other YMCA facilities of the same type of framework; a partnership with another municipality.

Ms. Van Wiegand stated that there are many YMCAs across the country that have partnered with cities in a variety of ways. She said that it is more common for a city to construct a building and for the YMCA to run the facility, versus the partnership being considered this evening. She indicated that the other 5 facilities in the Santa Clara Valley are not in partnership with other municipalities. She clarified that the YMCA owns the 5 other facilities.

Mayor Kennedy referred to the concept of co employership. He inquired whether there were any issues associated with an employee of the YMCA or the employee with the City who may want the other agency's benefits.

Human Resources Director Fischer said that employees will be YMCA and City employees as far as their pay checks, workers compensation, and the benefit package to be received. The City will have very few regularly benefitted positions at the beginning. She noted the City's current recreational facilities are run by temporary and seasonal employees with very few benefitted positions. She acknowledged that YMCA also has temporary employees. She indicated that the benefit packets are somewhat different between the two groups. As far as reporting relationships and benefits go, it is not felt that this would be a problem. With respect to day to day direction, it is to be understood that all employees will be expected to make the center successful.

Mayor Kennedy opened the floor to public comment.

Chuck Dillmann noted the YMCA has been in this business for a long time. As an organization, they have the capability to do the best job in running the facility. He recommended the City look at a model that gives the responsibility, to the maximum extent possible, to the YMCA. It was not clear to him the City should be in the business of running recreational programs when they have a subcontractor that can do so. He felt the City would save money and a lot of aggravation in the long run.

No further comments were offered.

Council Member Carr said that staff presented an excellent report as it answered a lot of his questions. He noted that the presentation started with discussions about the spirit of the partnership and stewardship. This leads him to believe that he can have faith in this partnership. The partnership will do the right thing and be looking for the right/just causes the Council requests. He thanked City staff: Steve Rymer, Rod Cooper, Ed Tewes, Melissa Dile and Mary Kay Fisher; and YMCA staff: Pam Van Wiegand, Debbie Cupps, Dave Thornton and members of the Mt. Madonna Board who had the faith and advocacy to move forward with this partnership. He thanked Council Member Tate, his colleague on the Public Safety & Community Services Committee, for asking the tough questions. Council Member Tate helped get the Committee to a place where it could identify the goals that helped staff move forward. He understands that there are still several questions that need to be answered, but felt that this is a great framework and a contract the Council can move forward with. He felt the contract provides the City with the first and best opportunity to look at the overall needs of the community at a time the City is looking at a difficult budget situation. He said that the City is looking at this partnership to fill as many of the holes as possible. He was confident the City would be able to meet the needs of the community in the way the contract is drafted.

Mayor Pro Tempore Grzan addressed philosophy, in terms of the scope of recreational programs. He quoted from the memo prepared by Mr. Rymer, page 148; paragraph 3, states that the goal of the partnership is to have cost recovery in place. He notes that Mr. Rymer states this is an ambitious goal in recognition of the fact that a majority of public recreation facilities do not recover all of their costs. He felt that a policy decision has been made such that in order for the City to attract all residents of Morgan Hill, the Council has agreed to acknowledge that the facility will not achieve full cost recovery; subsidizing the CRC from other resources. This makes the programs affordable. He was not stating the YMCA could not do their job, nor was he stating that the City was able to do an equally good job. He felt the policy and the philosophy that making the City's facilities 100% cost recovery was an unrealistic and ambitious goal. When it comes to the use of public dollars, he did not want to state that he was ambitious with the tax payers' dollars. He would like to state he was conservative and confident that the decisions to be made would achieve the financial goals the Council established. He still sees cost recovery risks as well as risks in what the community is willing to afford and pay. He stated that he was pleased that scholarships would be made available.

Mayor Pro Tempore Grzan stated that he would be looking for a more traditional public facility; making programs and services affordable. He felt that this is done by having other revenues come in to support these programs and activities. He said that he would like to see an economic plan in place that would support facilities, programs and services in Morgan Hill. He noted the Council is looking at every possible revenue resource it can in order to cover its deficit. He does not see the facility doing as well as is being projected based upon what he feels would be changes in the recreational market. He stated that the City of Gilroy is capable of providing facilities as they have a strong tax base in this regard. He felt

this would place the City at risk. He was leery about moving forward with this program based upon some of the philosophical and policy decisions that will be made.

Mayor Pro Tempore Grzan said that he has heard from the community that they have problems with the term “membership” based on the fact that they paid for the facility with Redevelopment dollars. Citizens believe they have invested in this facility and are members based on being a part of the community. Some citizens question why they have to be paying members of a facility that they have already paid into. He felt this was a hurdle the City will have to overcome sometime in the future. He said that he was unsure of some of the programming concepts. He would have liked to have seen a preliminary model of what would have gone into the facility; information on the programs to be provided at the facility, and who would be the provider.

Mayor Pro Tempore Grzan indicated that no matter the outcome of the meeting this evening, he would be joining the community at the opening of the facility and be proud that it is here. He will be supporting the community and will work hard to support the facility as it overcomes the challenges contained in the staff report as well as the challenges the City will face as it deals with the budget deficit, perchlorate, open space, development, etc. He stated that he has no personal interests in any of the decisions to be made this evening as his personal interests are for this community alone.

Council Member Sellers said that the City is putting this unique partnership together because the City has had a unique history. He said that it is unique to have the City’s recreational department disband and have the YMCA step up and take over the recreational programs for many years. It was also unique for the City to turn around and be able to build a beautiful new facility and having an operator of high esteem in the community. He agreed this was a unique partnership and that it was a unique set of circumstances. He applauded everyone involved for having undertaken this effort and putting it together. He stated that the presentation received this evening is proof that there was an extensive amount of work put into the process. He said that the questions raised were answered. He was impressed with the staff on board and their capability in answering the remaining questions. He felt that Mr. Cooper has done an outstanding job for the City of Morgan Hill and came to the forefront of putting this partnership together. He pointed out that only 15% of the users are projected to come from outside of the community. Projecting this percentage, you would realize that there would only be a slight fraction of individuals (less than 10%) of Gilroy citizens utilizing the facility. If the percentage is greater, there would be issues. He said that this relatively small number will help the City get over the hurdle. He said that in his tenure on the Council, he has often made decisions that went against programs and individuals, and that other Council members have done the same. He felt the Council has been held above reproach on this issue. It was his belief that everyone on the Council is dealing with this issue purely based on what is best for the community, and that it needs to be made clear that this is the case.

Action: *On a motion by Council Member Sellers and seconded by Council Member Tate, the City Council, on a 4-0-1 vote with Mayor Pro Tempore Grzan abstaining, **Authorized** the City Manager to Execute a Contract with the YMCA of Santa Clara Valley for the Operation of the Centennial Recreation Center’s Health/Fitness and Senior Programs.*

FUTURE COUNCIL-INITIATED AGENDA ITEMS

No items were identified.

ADJOURNMENT

There being no further business, Mayor/Chairman Kennedy adjourned the meeting at 10:00 p.m.

MINUTES RECORDED AND PREPARED BY:

IRMA TORREZ, CITY CLERK/AGENCY SECRETARY